

Single Audit Report

**MARION T. ACADEMY CHARTER SCHOOL**  
(A Component Unit of the State of Delaware)  
Wilmington, Delaware

Year Ended June 30, 2007

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**MARION T. ACADEMY CHARTER SCHOOL**  
(A Component Unit of the State of Delaware)

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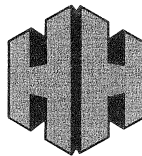
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**HAGGERTY & HAGGERTY, P.A.**

**CERTIFIED PUBLIC ACCOUNTANTS  
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### **Report of Independent Auditor**

To the School Board and President  
**Marion T. Academy Charter School**  
Wilmington, Delaware

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Marion T. Academy Charter School (a component unit of the State of Delaware) as of and for the years ended June 30, 2007 and 2006, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Marion T. Academy Charter School as of June 30, 2007 and 2006, and the respective changes in financial position for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 9, the School's Charter expires June 30, 2008. The Charter School Accountability Committee of the Delaware Department of Education made a recommendation not to renew the charter of Marion T. Academy Charter School in its January 28, 2008 report. On April 17, 2008, the Delaware Board of Education voted not to renew the School's Charter. This factor alone raises substantial doubt about the School's ability to continue as a going concern.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2008 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The budgetary information on page 19 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it. The School has not presented Management's Discussion and Analysis that U.S. generally accepted accounting principles has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise Marion T. Academy Charter School's basic financial statements. The additional information on pages 20 and 21 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The additional information on pages 20 and 21 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statement taken as a whole.

This report is intended solely for the information and use of the School's management, School Board members, Department of Education, Office of the Governor, Office of Controller General, Office of Attorney General, Office of Management and Budget, Secretary of Finance, Office of Auditor of Accounts, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, under 29 Del. C., Section 10002(d), this report is a public record and its distribution is not limited.



Certified Public Accountants

March 12, 2008

Except as to Note 9, which the date is April 17, 2008  
Wilmington, Delaware

## **Basic Financial Statements Section**

**MARION T. ACADEMY CHARTER SCHOOL**  
**STATEMENTS OF NET ASSETS**  
June 30, 2007 and 2006

	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2006</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and equivalents	\$ 727,483	\$ 964,710
Accounts receivable, net	...	6,092
Due from other governments	123,661	76,509
<b>Total current assets</b>	<b>851,144</b>	<b>1,047,311</b>
<b>NONCURRENT ASSETS</b>		
Capital assets:		
Nondepreciable	100,000	100,000
Depreciable, net of depreciation	3,753,764	3,750,895
Loan origination fees, net of amortization	10,150	11,550
<b>Total noncurrent assets</b>	<b>3,863,914</b>	<b>3,862,445</b>
<b>TOTAL ASSETS</b>	<b>4,715,058</b>	<b>4,909,756</b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	161,725	234,336
Accrued salaries and related costs	455,572	388,732
Long-term liabilities due within one year	93,829	80,762
<b>Total current liabilities</b>	<b>711,126</b>	<b>703,830</b>
<b>NONCURRENT LIABILITIES</b>		
Long-term liabilities due after one year	2,494,514	2,595,302
Compensated absences liability	34,454	19,498
<b>Total noncurrent liabilities</b>	<b>2,528,968</b>	<b>2,614,800</b>
<b>TOTAL LIABILITIES</b>	<b>3,240,094</b>	<b>3,318,630</b>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	1,275,571	1,186,381
Restricted for School plaque	4,000	4,000
Restricted for capital purchases	25,000	200,000
Restricted for specific programs	29,938	44,589
Unrestricted	140,455	156,156
<b>TOTAL NET ASSETS</b>	<b>\$ 1,474,964</b>	<b>\$ 1,591,126</b>

The accompanying notes are an integral  
part of the basic financial statements

**MARION T. ACADEMY CHARTER SCHOOL**  
**STATEMENT OF ACTIVITIES**  
Year Ended June 30, 2007

Functions	Expenses	Program Revenues			Net (Expense)
		Charges for	Operating	Capital	Revenues and
		Services	Grants and	Grants and	Changes In
			Contributions	Contributions	Net Assets
					Total
					Governmental
					Activities
<b>GOVERNMENTAL ACTIVITIES</b>					
Instructional services	\$ 4,006,234	\$ ...	\$ 644,765	\$ ...	\$ (3,361,469)
Supporting services:					
Operation and maintenance of facilities	720,172	...	...	25,000	(695,172)
Transportation	475,596	...	456,958	...	(18,638)
School Food services	242,197	...	212,102	...	(30,095)
Interest on long-term debt	177,913	...	...	...	(177,913)
Depreciation and amortization-unallocated	116,486	...	...	...	(116,486)
<b>Total Charter School</b>	<b>\$ 5,738,598</b>	<b>\$ ...</b>	<b>\$ 1,313,825</b>	<b>\$ 25,000</b>	<b>(4,399,773)</b>
<b>GENERAL REVENUES</b>					
Charges to school districts					1,558,041
State aid not restricted to specific purpose					2,657,048
Earnings on cash and equivalents					43,869
Miscellaneous revenues					24,653
<b>Total general revenues</b>					<b>4,283,611</b>
<b>CHANGE IN NET ASSETS (LIABILITIES)</b>					<b>(116,162)</b>
<b>NET ASSETS</b>					
Beginning of year					1,591,126
End of year					<b>\$ 1,474,964</b>

The accompanying notes are an integral part of the basic financial statements

**MARION T. ACADEMY CHARTER SCHOOL**  
**STATEMENT OF ACTIVITIES**  
Year Ended June 30, 2006

Functions	Expenses	Program Revenues			Net (Expense)
		Charges for	Operating	Capital	Revenues and
		Services	Grants and	Grants and	Changes In
			Contributions	Contributions	Net Assets
					Total
					Governmental
					Activities
<b>GOVERNMENTAL ACTIVITIES</b>					
Instructional services	\$ 3,861,617	\$ ...	\$ 443,902	\$ 52,335	\$ (3,365,380)
Supporting services:					
Operation and maintenance of facilities	502,947	...	...	200,000	(302,947)
Transportation	342,883	...	380,711	...	37,828
School Food services	222,278	11,499	139,775	...	(71,004)
Interest on long-term debt	169,832	...	...	...	(169,832)
Depreciation and amortization-unallocated	108,759	...	...	...	(108,759)
<b>Total Charter School</b>	<b>\$ 5,208,316</b>	<b>\$ 11,499</b>	<b>\$ 964,388</b>	<b>\$ 252,335</b>	<b>(3,980,094)</b>
<b>GENERAL REVENUES</b>					
Charges to school districts					1,434,725
State aid not restricted to specific purpose					2,444,249
Earnings on cash and equivalents					33,093
Miscellaneous revenues					9,567
Cancellation of debt obligations (Note 9)					81,837
<b>Total general revenues</b>					<b>4,003,471</b>
<b>CHANGE IN NET ASSETS</b>					<b>23,377</b>
<b>NET ASSETS</b>					
Beginning of year					<u>1,567,749</u>
End of year					<u>\$ 1,591,126</u>

The accompanying notes are an integral part of the basic financial statements



**MARION T. ACADEMY CHARTER SCHOOL**  
BALANCE SHEETS-GOVERNMENTAL FUNDS  
June 30, 2007 and 2006

	2007			2006		
	General Fund	Capital Projects	Total Governmental Funds	General Fund	Capital Projects	Total Governmental Funds
<b>ASSETS</b>						
Cash and equivalents	\$ 606,915	\$ 120,568	\$ 727,483	\$ 660,796	\$ 303,914	\$ 964,710
Accounts receivable, net	...	...	...	6,092	...	6,092
Due from other governments	<u>123,661</u>	<u>...</u>	<u>123,661</u>	<u>76,509</u>	<u>...</u>	<u>76,509</u>
<b>TOTAL ASSETS</b>	<u>\$ 730,576</u>	<u>\$ 120,568</u>	<u>\$ 851,144</u>	<u>\$ 743,397</u>	<u>\$ 303,914</u>	<u>\$ 1,047,311</u>
<b>LIABILITIES</b>						
Accounts payable	\$ 161,725	\$ ...	\$ 161,725	\$ 234,336	\$ ...	\$ 234,336
Accrued salaries and related costs	<u>455,572</u>	<u>...</u>	<u>455,572</u>	<u>388,732</u>	<u>...</u>	<u>388,732</u>
<b>Total liabilities</b>	<u>617,297</u>	<u>...</u>	<u>617,297</u>	<u>623,068</u>	<u>...</u>	<u>623,068</u>
<b>FUND BALANCES</b>						
Reserved for encumbrances	12	...	12	7,675	...	7,675
Reserved for School plaque	...	4,000	4,000	...	4,000	4,000
Reserved for capital purchases	...	25,000	25,000	...	200,000	200,000
Reserved for specific programs	29,938	...	29,938	44,589	...	44,589
Unreserved	<u>83,329</u>	<u>91,568</u>	<u>174,897</u>	<u>68,065</u>	<u>99,914</u>	<u>167,979</u>
<b>Total fund balances</b>	<u>113,279</u>	<u>120,568</u>	<u>233,847</u>	<u>120,329</u>	<u>303,914</u>	<u>424,243</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 730,576</u>	<u>\$ 120,568</u>	<u>\$ 851,144</u>	<u>\$ 743,397</u>	<u>\$ 303,914</u>	<u>\$ 1,047,311</u>

The accompanying notes are an integral part of the basic financial statements

**MARION T. ACADEMY CHARTER SCHOOL**  
RECONCILIATION OF THE BALANCE SHEETS OF GOVERNMENTAL FUNDS  
TO THE STATEMENTS OF NET ASSETS  
June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Amounts reported for governmental activities in the statement of net assets are different because:		
<b>Total fund balances-governmental funds</b>	<b>\$ 233,847</b>	<b>\$ 424,243</b>
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. The cost of capital assets is \$4,484,376 for 2007 and \$4,366,421 for 2006 and the related accumulated depreciation is \$630,612 for 2007 and \$515,526 for 2006.	3,853,764	3,850,895
Loan origination fees are reported as expenditures in the governmental funds. The total cost is \$14,000 for 2007 and \$14,000 for 2006 and the related accumulated amortization is \$3,850 for 2007 and \$2,450 for 2006.	10,150	11,550
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.	(2,588,343)	(2,676,064)
Compensated absences are not due and payable in the current period and therefore are not reported in the governmental funds.	<u>(34,454)</u>	<u>(19,498)</u>
<b>Total net assets-governmental activities</b>	<b><u>\$ 1,474,964</u></b>	<b><u>\$ 1,591,126</u></b>

The accompanying notes are an integral part of the basic financial statements

**MARION T. ACADEMY CHARTER SCHOOL****STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS**

Years Ended June 30, 2007 and 2006

	2007			2006		
	General Fund	Capital Projects	Total Governmental Funds	General Fund	Capital Projects	Total Governmental Funds
<b>REVENUES</b>						
Charges to school districts	\$ 1,558,041	\$ ...	\$ 1,558,041	\$ 1,434,725	\$ ...	\$ 1,434,725
State aid	3,162,374	...	3,162,374	2,886,967	...	2,886,967
Federal aid	626,408	...	626,408	381,895	...	381,895
Earnings on cash and equivalents	42,025	1,844	43,869	30,053	3,040	33,093
School Food services	163,734	...	163,734	151,274	...	151,274
Contributions	18,357	25,000	43,357	52,335	200,000	252,335
Miscellaneous revenues	24,653	...	24,653	9,567	...	9,567
<b>Total revenues</b>	<u>5,595,592</u>	<u>26,844</u>	<u>5,622,436</u>	<u>4,946,816</u>	<u>203,040</u>	<u>5,149,856</u>
<b>EXPENDITURES</b>						
Current:						
Instructional services	3,991,278	...	3,991,278	3,845,064	...	3,845,064
Supporting services:						
Operating & maintenance of facilities	619,886	...	619,886	502,947	...	502,947
Transportation	475,596	...	475,596	342,883	...	342,883
School Food services	242,197	...	242,197	222,278	...	222,278
Capital outlay	8,051	210,190	218,241	13,015	...	13,015
Debt service:						
Principal	87,721	...	87,721	75,896	550,000	625,896
Interest and other charges	177,913	...	177,913	169,832	...	169,832
<b>Total expenditures</b>	<u>5,602,642</u>	<u>210,190</u>	<u>5,812,832</u>	<u>5,171,915</u>	<u>550,000</u>	<u>5,721,915</u>
<b>EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES</b>	<u>(7,050)</u>	<u>(183,346)</u>	<u>(190,396)</u>	<u>(225,099)</u>	<u>(346,960)</u>	<u>(572,059)</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Interfund transfers in (out)	...	...	...	190,390	(190,390)	...
Proceeds from long-term financing	...	...	...	...	...	...
<b>Total other financing sources (uses)</b>	<u>...</u>	<u>...</u>	<u>...</u>	<u>190,390</u>	<u>(190,390)</u>	<u>...</u>
<b>NET CHANGES IN FUND BALANCES</b>	<u>(7,050)</u>	<u>(183,346)</u>	<u>(190,396)</u>	<u>(34,709)</u>	<u>(537,350)</u>	<u>(572,059)</u>
<b>FUND BALANCES</b>						
Beginning of year	<u>120,329</u>	<u>303,914</u>	<u>424,243</u>	<u>155,038</u>	<u>841,264</u>	<u>996,302</u>
End of year	<u>\$ 113,279</u>	<u>\$ 120,568</u>	<u>\$ 233,847</u>	<u>\$ 120,329</u>	<u>\$ 303,914</u>	<u>\$ 424,243</u>

The accompanying notes are an integral part of the basic financial statements

**MARION T. ACADEMY CHARTER SCHOOL**

## RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES AND

CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENTS OF ACTIVITIES  
Years Ended June 30, 2007 and 2006

	2007	2006
Amounts reported for governmental activities in the statement of activities are different because:		
<b>Net change in fund balances-total governmental funds</b>	<b>\$ (190,396)</b>	<b>\$ (572,059)</b>
Government funds report capital outlay as expenditures. However, in the statement of activities, assets with an initial, individual cost of \$15,000 or more are capitalized and the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. These are the amounts by which depreciation exceeded capital outlay.		
	2007	2006
Capital outlay	\$ 117,955	\$ ...
Depreciation expense	(115,086)	(106,659)
	2,869	(106,659)
The governmental funds report loan proceeds as an other financing source, while repayment of loan principal is reported as an expenditure. Also, governmental funds report the effect of issuance costs when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of long-term liabilities and related items is as follows:		
	2007	2006
Long-term financing:		
Principal payments	\$ 87,721	\$ 625,896
Forgiveness of debt	...	81,837
Loan origination fees:		
Amortization	(1,400)	(2,100)
	86,321	705,633
In the statement of activities, certain operating expenses such as compensated absences for vacations are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Compensated absences liability increased by \$14,956 for 2007 and \$3,538 for 2006.		
	(14,956)	(3,538)
<b>Change in net assets (liabilities)-gov'tal activities</b>	<b>\$ (116,162)</b>	<b>\$ 23,377</b>

The accompanying notes are an integral part of the basic financial statements

**MARION T. ACADEMY CHARTER SCHOOL**  
NOTES TO FINANCIAL STATEMENTS

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Marion T. Academy Charter School (the "School") have been prepared in conformity with U.S. generally accepted accounting principles as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies of the School are described below.

Reporting Entity

The School is the primary government and is considered a component unit of the State of Delaware. A component unit, although a legally separate entity, is, in substance, part of the State's operations. The School has no component units for which it is considered to be financially accountable.

Government-Wide and Fund Financial Statements

The government-wide financial statements (the statement of net assets and the statement of activities) report the financial information on all of the nonfiduciary activities of the School. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific program. *Program revenues* include charges to students or other third parties who purchase or directly benefit from goods and services provided, and grants and contributions that are restricted to meeting the operating or capital requirements of a particular function.

Separate financial statements are provided for governmental funds. The major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The **government-wide financial statements** are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Charges to school districts are recognized as revenues in the year for which they are billed. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**MARION T. ACADEMY CHARTER SCHOOL**  
NOTES TO FINANCIAL STATEMENTS

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

The **governmental fund financial statements** are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current year or soon enough thereafter to pay liabilities of the current year. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, early retirement, and postemployment healthcare benefits, are recorded only when payment is due.

Charges to school districts and interest associated with the fiscal year are all considered to be susceptible to accrual and so have been recognized as revenues of the fiscal year. All other revenue items are considered to be measurable and available only when the School receives cash.

The School reports the following major governmental funds:

- The **general fund** is the School's primary operating fund. It accounts for all financial resources of the School, except those required to be accounted for in another fund.
- The **capital projects fund** accounts for resources accumulated and payments made for the acquisition and improvement of sites, construction and remodel of facilities, and procurement of equipment necessary for providing educational programs for all students within the School.

Amounts reported as program revenues include 1) charges to students for special fees, material, supplies, or services provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues.

When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted resources first, then unrestricted resources as they are needed.

Encumbrances

Encumbrance accounting is employed in the governmental funds. Encumbrances (e.g., purchase orders and contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

Use of Estimates

The preparation of financial statements in conformance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Cash and Equivalents

The School's cash and equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Accounts Receivable

Bad debts are provided on the allowance method based on historical experience and management's evaluation of outstanding receivables. At June 30, 2007 & 2006, the School had no uncollectible allowance.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivable/payable" (i.e., current portion) or "advances from/to other funds" (i.e., the noncurrent portion). At June 30, 2007 and 2006, the School had no such activity.

Advances between funds, in the fund financial statements, when present as reported are offset by a fund balance reserve account in the applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Capital Assets and Depreciation

Capital assets which include leasehold improvements, and building and improvements are reported in the government-wide financial statements. The School defines capital assets as assets with initial, individual cost of \$15,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extends the life of an asset is not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. The interest cost incurred during construction is not capitalized.

Capital assets are depreciated using the straight-line method over their estimated lives ranging between 3 to 40 years.

**MARION T. ACADEMY CHARTER SCHOOL**  
NOTES TO FINANCIAL STATEMENTS

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

Loan Origination Fees

At June 30, 2007 and 2006, the loan origination fees of \$14,000 are being amortized over the ten-year life of the mortgage note using the straight-line method. The accumulated amortization at June 30, 2007 and 2006 was \$3,850 and \$2,450, respectively.

Compensated Absences Liability

Vacation pay plus related payroll taxes is accrued when incurred in the government-wide financial statements. A liability is reported in the governmental funds only if the amounts have matured, for example, as a result of employee resignations and retirements.

**Vacation** - Twelve month employees receive 12 days per year. Unused vacation cannot be carried over to succeeding years. Employees are paid for unused vacation upon termination, retirement, etc. at the current rate of pay.

**Sick Leave** - Sick leave allowances are as follows: 10 days for 10-month instructional staff employees, and 6 days for 12-month employees. Any unused sick days shall be accumulated to the employee's credit not to exceed 42 days.

Long-Term Obligations

In government-wide financial statements, long-term debt obligations are reported as liabilities in the applicable governmental activities.

In the fund financial statements, governmental fund types recognize the principal portion of the payments as expenditures.

Fund Balances

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a restricted purpose. Designations of fund balance represent tentative plans for future use of financial resources that are subject to change.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.



**MARION T. ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - CASH AND EQUIVALENTS**

At June 30, 2007 and 2006, the School has cash and equivalents of \$601,045 and \$658,772, respectively. Cash and equivalents are controlled by the personnel of the State Treasurer's Office in Dover, Delaware and any investment decisions are made by the State Treasurer's Office. The deposits held by the State of Delaware investment pool, an internal investment pool, are specifically identified for the School, but the credit risk cannot be categorized for these deposits. Credit risk for such deposits depends on the financial stability of the State.

The capital projects fund is in the custody of School officials. At June 30, 2007 and 2006, these deposits were held by one financial institution. These deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Deposits totaling \$126,438 (book balance of \$126,506) and \$303,632 (book balance of \$303,632) held by the financial institution were in excess of FDIC insurance limits in the amount of \$20,568 and \$203,632, respectively, and therefore, are exposed to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the School's deposits may not be returned to it.

**NOTE 3 - CAPITAL ASSETS**

Capital assets activity for the fiscal year ended June 30 follows:

Year Ended June 30, 2007				
Description	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets, not depreciated:				
Land	\$ 100,000	\$ ...	\$ ...	\$ 100,000
Total capital assets	100,000	...	...	100,000
Capital assets, being depreciated:				
Leasehold improvements	...	117,955	...	117,955
Building and improvements	4,266,421	...	...	4,266,421
Less accumulated depreciation:				
Building and improvements	515,526	115,086	...	630,612
Total capital assets	3,750,895	2,869	...	3,753,764
Governmental activities				
Capital assets, net	\$3,850,895	\$ 2,869	\$ ...	\$3,853,764

Year Ended June 30, 2006				
Description	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets, not depreciated:				
Land	\$ 100,000	\$ ...	\$ ...	\$ 100,000
Total capital assets	100,000	...	...	100,000
Capital assets, being depreciated:				
Building and improvements	4,266,421	...	...	4,266,421
Less accumulated depreciation:				
Building and improvements	408,867	106,659	...	515,526
Total capital assets	3,857,554	(106,659)	...	3,750,895
Governmental activities				
Capital assets, net	\$3,957,554	\$ (106,659)	\$ ...	\$3,850,895

**MARION T. ACADEMY CHARTER SCHOOL**  
NOTES TO FINANCIAL STATEMENTS

**NOTE 4 - LONG-TERM DEBT OBLIGATIONS**

The summary of changes in the long-term debt obligations follows:

Description	Year Ended June 30, 2007				
	Long-Term Obligations				Due Within One Year
	Beginning Balance	Additions	Deletions	Ending Balance	
<b>Governmental activity:</b>					
General obligations:					
Mortgage Note	\$2,676,064	\$ ...	\$ 87,721	\$2,494,514	\$ 93,829
Other long-term debt:					
Compensated absences	19,498	14,956	...	34,454	...
<b>Totals</b>	<b>\$2,695,562</b>	<b>\$ 14,956</b>	<b>\$ 87,721</b>	<b>\$2,528,968</b>	<b>\$ 93,829</b>

Compensated absences liability for governmental activities are generally liquidated by the general fund.

At June 30, principal maturities of long-term debt obligations are:

Description	2007	2006
Mortgage note to a multibank community development corporation for \$2.8 million with an annual interest rate of 6.23%, and a maturity date of October 1, 2014. The mortgage note was issued to refinance debt obligations. The note carries a 10 year term and is payable in equal monthly installments of \$20,433 based on a 20 year amortization period. The note is secured with a first mortgage lien on real property located at 1121 Thatcher Street, Wilmington, Delaware, and a first security interest in all fixtures, furnishings, equipment, receivables, inventory, contract rights, insurance proceeds, condemnation payments, and tangible and intangible personal property of the School.	\$2,588,343	\$2,676,064
Less: Current portion	93,829	80,762
<b>Long-term portion</b>	<b>\$2,494,514</b>	<b>\$2,595,302</b>

Total interest cost incurred was \$177,913 for 2007 and \$169,832 for 2006, all of which was charged to operations.

Maturities of long-term debt obligations, including interest, are:

Fiscal Years Ending June	Principal	Interest	Total
2009	\$ 92,401	\$ 152,799	\$ 245,200
2010	98,325	146,875	245,200
2011	104,628	140,572	245,200
2012	111,336	133,864	245,200
2013	118,474	126,726	245,200
2014-2015	1,969,350	138,214	2,107,564
<b>Long-term portion of debt</b>	<b>\$2,494,514</b>	<b>\$ 839,050</b>	<b>\$3,333,564</b>

**MARION T. ACADEMY CHARTER SCHOOL**  
NOTES TO FINANCIAL STATEMENTS

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**NOTE 5 - INTERGOVERNMENTAL RECEIVABLES**

Amounts due from other governmental units represent receivables for revenues earned by the School or collections made by another governmental unit on its behalf. At June 30, the intergovernmental receivables are as follows:

Description	2007	2006
Passed through the State of Delaware:		
Local school districts	\$ ...	\$ ...
Federal government	<u>123,661</u>	<u>76,509</u>
Total intergovernmental receivables	123,661	76,509
Less: Allowance for doubtful accounts-Local	<u>...</u>	<u>...</u>
Total intergovernmental receivables, net	<u>\$ 123,661</u>	<u>\$ 76,509</u>

**NOTE 6 - PENSION PLAN**

School employees are considered State employees and are covered under the State's pension program. The State contributed 7.44% for 2007 and 2006 of the State share of the employees' salary. The School contributed the same percentages on the local share of the salary. The employees contribute 3.00% of salary in excess of \$6,000 per share up to social security maximum and 3.00% for any salary above social security maximum. Total pension cost of \$203,873 for 2007 and \$319,307 for 2006 (State share) and \$171,114 for 2007 and \$5,846 for 2006 (local and federal share) is included in the financial statements. Certain significant plan provisions follow:

- Early retirement:
  - a. 15 years service-age 55 (reduced by 0.2%, each month under age 60)
  - b. 25 years service-any age (reduced by 0.2%, each month short of 30 years)
- Service retirement:
  - a. 15 years service-age 60
  - b. 30 years service-any age
  - c. 5 years service-age 62
- Disability retirement:
  - a. 5 years service and proof of disability
- Vested pension-An employee can vest pension rights after five years of service.

The State's pension program is a defined benefit plan. More information on this plan is available in the State of Delaware Public Employee Retirement System (DPERS) *Comprehensive Annual Report*. This report may be obtained by writing DPERS at Suite 1, McArdle Building, 860 Silver Lake Boulevard, Dover, Delaware 19904 or by calling 1-800-722-7300.

**MARION T. ACADEMY CHARTER SCHOOL**  
NOTES TO FINANCIAL STATEMENTS

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**NOTE 7 - LEASING ARRANGEMENTS**

The School leases a building containing office space, classrooms, equipment and fixtures located at 1201 Northeast Boulevard, Wilmington, Delaware. The lease term commenced September 1, 2003 and expires August 31, 2013 with a renewal option for one additional term of five years. On September 1, 2006 the School increased its space by 2,288 square feet thereby increasing its monthly rental by \$2,275.84. The increase in space does not change the terms of the original lease. Because of extensive renovations, the School did not occupy the building until September 1, 2004. Base rent shall be increased July 1 by the lessor of 5% of the base rent for the previous calendar year or the percentage increase in the Consumer Price Index (CPI). At any time during the term of this lease the School has the right and option to purchase the premises for \$2,941,000 with an annual increase of 5% to the base purchase amount. At June 30, 2007 and 2006, total rental expense was \$288,710 and \$245,700, respectively.

The School leases certain copier equipment under operating leasing arrangements expiring during fiscal year 2011.

At June 30, 2007, the minimum future rental payments required for the building and copier equipment under non-cancelable leasing arrangements having remaining terms in excess of one year for the remaining years in the aggregate are:

<u>Fiscal Years Ending June 30</u>	<u>Building</u>	<u>Equipment</u>	<u>Total</u>
2008	\$ 278,723	\$ 18,620	\$ 297,343
2009	292,659	15,894	308,553
2010	307,290	13,946	321,236
2011	322,655	5,811	328,466
2012	338,788	...	338,788
2013	355,727	...	355,727
2014	<u>217,883</u>	<u>...</u>	<u>217,883</u>
Minimum future payments required	<u>\$2,113,725</u>	<u>\$ 54,271</u>	<u>\$2,167,996</u>

Total rental costs are \$299,900 for 2007 and \$268,593 for 2006.

**NOTE 8 - RELATED PARTY TRANSACTIONS**

The Nehemiah Gateway Community Development Corporation (NGCDC), a nonprofit corporation, provides services from time to time to the School. The NGCDC Board president is also the Board president of the School, and the Chief Administrative Officer of the School is the NGCDC Board treasurer. At June 30, 2007 and 2006, the School paid costs for services of \$6,160 and \$0, respectively.

The president and vice-president of the School Board are also Board members of Innovative Schools Development Corporation (ISDC), a nonprofit corporation. ISDC provides consulting services to the School. At June 30, 2007 and 2006, the School paid ISDC \$37,896 and \$176,432, respectively.

**NOTE 9 - COMMITMENTS AND CONTINGENCIES**

In the normal course of business, there are outstanding various commitments and contingent liabilities in addition to the normal encumbrances for the purchase of goods and services. The School does not anticipate losses from these transactions.

Grants Activity

The School receives financial assistance from both federal and state agencies in the form of grant awards. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the State Office of Auditor of Accounts. Any disallowed claims resulting from such audits could become a liability of the School. The School's administration believes such disallowance, if any, would be immaterial to the basic financial statements.

Litigation

The School was a defendant in a lawsuit filed by one of its vendors for the non-payment of services rendered. The suit sought \$59,336 plus interest. The School settled the lawsuit for \$49,500 during fiscal year 2007.

Charter Renewal

The School's charter expires June 30, 2008. The "Charter School Accountability Committee" made a recommendation to the Delaware Department of Education in its report dated January 28, 2008 not to renew the School's charter, thereby raising substantial doubt about the School's ability to continue as a going concern. On April 17, 2008 the Delaware Board of Education voted not to renew the School's Charter. The financial statements have not been presented on a liquidation basis of accounting.

Management Agreement

On October 5, 2005, the School and Mosaica Education, Inc. (the former management company) reached an agreement to resolve their outstanding dispute (the termination of the management agreement by the School). The settlement resulted in a debt forgiveness of \$81,837 to the benefit of the School during fiscal year 2006.

## **Required Supplemental Information (RSI) Section**

**MARION T. ACADEMY CHARTER SCHOOL****SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE-BUDGET AND ACTUAL-GENERAL FUND**  
Year Ended June 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
				<u>Positive</u>
				<u>(Negative)</u>
<b>REVENUES</b>				
Charges to school districts	\$ 1,554,663	\$ 1,554,663	\$ 1,558,041	\$ 3,378
State aid	3,045,493	3,045,493	3,162,374	116,881
Federal aid	431,008	431,008	626,408	195,400
Earnings on cash and equivalents	29,507	29,507	42,025	12,518
Food service revenue	202,608	202,608	163,734	(38,874)
Contributions	...	...	18,357	18,357
Miscellaneous	75,000	75,000	24,653	(50,347)
<b>Total revenues</b>	<b>5,338,279</b>	<b>5,338,279</b>	<b>5,595,592</b>	<b>257,313</b>
<b>EXPENDITURES</b>				
Current:				
Salaries	2,296,110	2,296,110	2,415,911	(119,801)
Employment costs	895,483	895,483	948,576	(53,093)
Travel	15,777	15,777	3,126	12,651
Contracted services	1,636,446	1,636,446	302,695	1,333,751
Communications	...	...	20,669	(20,669)
Public utility services	...	...	125,701	(125,701)
Insurance	...	...	27,111	(27,111)
Transportation-buses	...	...	475,596	(475,596)
Land/Building/Facilities	...	...	301,530	(301,530)
Repairs and maintenance	...	...	192,665	(192,665)
Other contractual services	...	...	173,003	(173,003)
Supplies and materials	...	...	27,502	(27,502)
Operating supplies	88,497	88,497	72,675	15,822
Computer/Word Processing/Software	3,000	3,000	...	3,000
Food service costs	...	...	242,197	(242,197)
Contingency	96,062	96,062	...	96,062
Capital outlay	1,000	1,000	8,051	(7,051)
Debt service	245,200	245,200	265,634	(20,434)
<b>Total expenditures</b>	<b>5,277,575</b>	<b>5,277,575</b>	<b>5,602,642</b>	<b>(325,067)</b>
<b>EXCESS (DEFICIT) OF REVENUES</b>				
<b>OVER EXPENDITURES</b>	<b>60,704</b>	<b>60,704</b>	<b>(7,050)</b>	<b>(67,754)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Interfund transfers in (out)	...	...	...	...
<b>Total other financing sources (uses)</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>...</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>60,704</b>	<b>60,704</b>	<b>(7,050)</b>	<b>(67,754)</b>
<b>FUND BALANCES</b>				
Beginning of year	120,329	120,329	120,329	...
End of year	\$ 181,033	\$ 181,033	\$ 113,279	\$ (67,754)

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The School annually adopts a budget for the general fund financial statements. The budgets are integrated into the accounting system, and the budgetary data, as presented in the financial statements for all funds with annual budgets, compare the expenditures with the amended budgets. All budgets are presented on the modified accrual basis of accounting. Accordingly, the accompanying budgetary comparison schedule for the general fund presents actual expenditures in accordance with the accounting principles generally accepted in the United States on a basis consistent with the legally adopted budgets as amended. Unexpended appropriations on annual budgets lapse at the end of each fiscal year.

Material Violations

There were no material violations of the annual appropriated budget for the general fund for fiscal year 2007.

See Report of Independent Auditor

## **Additional Information Section**



**MARION T. ACADEMY CHARTER SCHOOL**  
BALANCE SHEETS-GENERAL FUND  
June 30, 2007 and 2006

	2007				2006			
	State Allocation	Local Funds	Federal Funds	Total General Fund	State Allocation	Local Funds	Federal Funds	Total General Fund
<b>ASSETS</b>								
Cash and equivalents	\$ 387	\$ 606,528	\$ ...	\$ 606,915	\$ 36,511	\$ 624,285	\$ ...	\$ 660,796
Accounts receivable, net	...	...	...	...	...	6,092	...	6,092
Due from other governments	...	123,661	...	123,661	...	76,509	...	76,509
<b>TOTAL ASSETS</b>	<u>\$ 387</u>	<u>\$ 730,189</u>	<u>\$ ...</u>	<u>\$ 730,576</u>	<u>\$ 36,511</u>	<u>\$ 706,886</u>	<u>\$ ...</u>	<u>\$ 743,397</u>
<b>LIABILITIES</b>								
Accounts payable	\$ 65,483	\$ 96,242	\$ ...	\$ 161,725	\$ 1,764	\$ 232,572	\$ ...	\$ 234,336
Accrued salaries and related costs	...	455,572	...	455,572	364,212	24,520	...	388,732
<b>Total liabilities</b>	<u>65,483</u>	<u>551,814</u>	<u>...</u>	<u>617,297</u>	<u>365,976</u>	<u>257,092</u>	<u>...</u>	<u>623,068</u>
<b>FUND BALANCES (DEFICIT)</b>								
Reserved for encumbrances	12	...	...	12	5,059	2,616	...	7,675
Reserved for specific programs	...	29,938	...	29,938	...	44,589	...	44,589
Unreserved	(65,108)	148,437	...	83,329	(334,524)	402,589	...	68,065
<b>Total fund balances (deficit)</b>	<u>(65,096)</u>	<u>178,375</u>	<u>...</u>	<u>113,279</u>	<u>(329,465)</u>	<u>449,794</u>	<u>...</u>	<u>120,329</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 387</u>	<u>\$ 730,189</u>	<u>\$ ...</u>	<u>\$ 730,576</u>	<u>\$ 36,511</u>	<u>\$ 706,886</u>	<u>\$ ...</u>	<u>\$ 743,397</u>

See Report of Independent Auditor

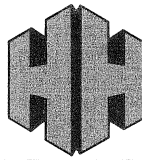
**MARION T. ACADEMY CHARTER SCHOOL**

STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-GENERAL FUND  
Years Ended June 30, 2007 and 2006

	2007				2006			
	State Allocation	Local Funds	Federal Funds	Total General Fund	State Allocation	Local Funds	Federal Funds	Total General Fund
<b>REVENUES</b>								
Charges to school districts	\$ ...	\$ 1,558,041	\$ ...	\$ 1,558,041	\$ ...	\$ 1,434,725	\$ ...	\$ 1,434,725
State aid	3,162,374	...	...	3,162,374	2,886,967	...	...	2,886,967
Federal aid	...	...	626,408	626,408	...	...	381,895	381,895
Earnings on cash and equivalents	...	42,025	...	42,025	...	30,053	...	30,053
Food service revenue	...	...	163,734	163,734	...	11,499	139,775	151,274
Contributions	...	18,357	...	18,357	...	52,335	...	52,335
Miscellaneous	...	24,653	...	24,653	...	9,567	...	9,567
<b>Total revenues</b>	<b>3,162,374</b>	<b>1,643,076</b>	<b>790,142</b>	<b>5,595,592</b>	<b>2,886,967</b>	<b>1,538,179</b>	<b>521,670</b>	<b>4,946,816</b>
<b>EXPENDITURES</b>								
Current:								
Salaries	1,377,973	842,774	195,164	2,415,911	1,690,039	414,477	93,641	2,198,157
Employment costs	506,389	342,476	99,711	948,576	804,429	18,501	41,072	864,002
Travel	2,156	970	...	3,126	2,476	2,708	...	5,184
Contracted services	105,273	52,079	145,343	302,695	68,171	272,122	94,363	434,656
Communications	14,023	4,279	2,367	20,669	12,436	7,503	1,260	21,199
Public utility services	82,332	43,369	...	125,701	41,431	59,268	...	100,699
Insurance	18,820	8,291	...	27,111	20,609	6,879	...	27,488
Transportation-buses	279,097	196,499	...	475,596	84,622	258,261	...	342,883
Land/Building/Facilities	173,181	128,349	...	301,530	124,735	149,423	...	274,158
Repairs and maintenance	115,659	77,006	...	192,665	70,047	55,643	2,400	128,090
Other contractual services	10,132	27,696	135,175	173,003	21,951	34,430	119,919	176,300
Supplies and materials	23,664	3,838	...	27,502	21,696	17,415	...	39,111
Operating supplies	14,150	13,868	44,657	72,675	58,632	(11,430)	29,240	76,442
Computer/Word Processing/Software	...	...	...	...	...	2,525	...	2,525
Food service costs	28,062	50,401	163,734	242,197	73,424	9,079	139,775	222,278
Capital outlay	4,060	...	3,991	8,051	4,134	8,881	...	13,015
Debt service:								
Principal	47,196	40,525	...	87,721	37,358	38,538	...	75,896
Interest and other charges	95,838	82,075	...	177,913	85,242	84,590	...	169,832
<b>Total expenditures</b>	<b>2,898,005</b>	<b>1,914,495</b>	<b>790,142</b>	<b>5,602,642</b>	<b>3,221,432</b>	<b>1,428,813</b>	<b>521,670</b>	<b>5,171,915</b>
<b>EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES</b>	<b>264,369</b>	<b>(271,419)</b>	<b>...</b>	<b>(7,050)</b>	<b>(334,465)</b>	<b>109,366</b>	<b>...</b>	<b>(225,099)</b>
<b>OTHER FINANCING SOURCES (USES)</b>								
Interfund transfers in (out)	...	...	...	...	...	190,390	...	190,390
<b>Total other financing sources (uses)</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>190,390</b>	<b>...</b>	<b>190,390</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>264,369</b>	<b>(271,419)</b>	<b>...</b>	<b>(7,050)</b>	<b>(334,465)</b>	<b>299,756</b>	<b>...</b>	<b>(34,709)</b>
<b>FUND BALANCES (DEFICIT)</b>								
Beginning of year	(329,465)	449,794	...	120,329	5,000	150,038	...	155,038
End of year	\$ (65,096)	\$ 178,375	\$ ...	\$ 113,279	\$ (329,465)	\$ 449,794	\$ ...	\$ 120,329

See Report of Independent Auditor

**SINGLE AUDIT SUPPLEMENT**  
**REQUIRED BY OMB CIRCULAR A-133**



**HAGGERTY & HAGGERTY, P.A.**

**CERTIFIED PUBLIC ACCOUNTANTS  
& MANAGEMENT CONSULTANTS**

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American Institute of CPA  
Pennsylvania Institute of CPA\*  
Delaware Society of CPA†  
Private Companies Practice Section

**Report of Independent Auditor  
on Internal Control over Financial Reporting  
and on Compliance and Other Matters  
Based on an Audit of the Financial Statements  
Performed in Accordance with Government Auditing Standards**

To the School Board and President  
**Marion T. Academy Charter School**  
Wilmington, Delaware

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Marion T. Academy Charter School as of and for the year ended June 30, 2007, which collectively comprise Marion T. Academy Charter School's basic financial statements and have issued our report thereon dated March 12, 2008. The financial statements have been prepared assuming that the School will continue as a going concern. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Marion T. Academy Charter School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Marion T. Academy Charter School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the School's financial statements that is more than inconsequential will not be prevented or detected by the School's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School's internal control.

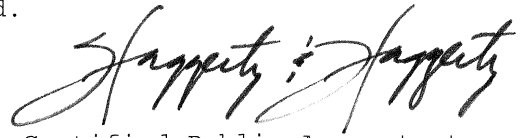
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Marion T. Academy Charter School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

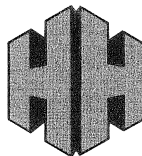
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This report is intended solely for the information and use of the School's management, School Board members, Department of Education, Office of the Governor, Office of Controller General, Office of Attorney General, Office of Management and Budget, Secretary of Finance, Office of Auditor of Accounts, Department of Finance, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, under 29 Del. C., Section 10002(d), this report is a public record and its distribution is not limited.



Certified Public Accountants

March 12, 2008  
Wilmington, Delaware



**HAGGERTY & HAGGERTY, P.A.**

**CERTIFIED PUBLIC ACCOUNTANTS  
& MANAGEMENT CONSULTANTS**

James R. Zdimal, CPA†  
Vincent S. Barbone, CPA, CFE\*†

American Institute of CPA  
Pennsylvania Institute of CPA\*  
Delaware Society of CPA†  
Private Companies Practice Section

**Report of Independent Auditor  
on Compliance with Requirements Applicable  
to Each Major Program and Internal Control over Compliance  
in Accordance with OMB Circular A-133**

To the School Board and President  
**Marion T. Academy Charter School**  
Wilmington, Delaware

Compliance

We have audited the compliance of Marion T. Academy Charter School with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. Marion T. Academy Charter School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Marion T. Academy Charter School's management. Our responsibility is to express an opinion on Marion T. Academy Charter School's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Marion T. Academy Charter School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Marion T. Academy Charter School's compliance with those requirements.

In our opinion, Marion T. Academy Charter School complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2007.

Internal Control Over Compliance

The management of Marion T. Academy Charter School is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Marion T. Academy Charter School's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

## Internal Control Over Compliance (continued)

A *control deficiency* in an Organization's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Organization's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Organization's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

## Schedule of Expenditures of Federal Awards

We have audited the financial statements of governmental activities, each major fund, and the aggregate remaining fund information of Marion T. Academy Charter School as of and for the year ended June 30, 2007, and have issued our report thereon dated March 12, 2008. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Marion T. Academy Charter School's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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This report is intended solely for the information and use of the School's management, School Board members, Department of Education, Office of the Governor, Office of Controller General, Office of Attorney General, Office of Management and Budget, Secretary of Finance, Office of Auditor of Accounts, Department of Finance, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, under 29 Del. C., Section 10002(d), this report is a public record and its distribution is not limited.



Certified Public Accountants

March 12, 2008  
Wilmington, Delaware

**MARION T. ACADEMY CHARTER SCHOOL**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Year Ended June 30, 2007

Federal Grantor/ Pass-Through Grantor Project Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Passed through State of Delaware, Department of Education (DOE):			
Child and Adult Care Food Program	10.558	N/A	\$ 163,734
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>			<b>\$ 163,734</b>
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Passed through the Delaware Department of Education (DOE):			
Title I Grants to Local Educational Agencies	84.010	N/A	\$ 427,195
Special Education-Grants to States	84.027	N/A	132,306
Career and Technical Education- Basic Grants to State	84.048	N/A	3,839
Special Education-Preschool Grants	84.173	N/A	2,359
Safe and Drug-Free Schools and Communities-State Grants	84.186	N/A	7,987
State Grants for Innovative Programs	84.298	N/A	3,522
Education Technology-State Grants	84.318	N/A	11,030
Improving Teacher Quality-State Grants	84.367	N/A	38,170
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>			<b>\$ 626,408</b>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>\$ 790,142</b>

**NOTE 1 - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards presents the activity of all the federal awards received by Marion T. Academy Charter School (the "School") and is presented on the accrual basis of accounting. The School's reporting entity is defined in Note 1 to the basic financial statements. All federal awards received from federal awarding agencies and pass-through entities are included on the schedule.



**MARION T. ACADEMY CHARTER SCHOOL**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended June 30, 2007**

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**A. SUMMARY OF AUDITOR'S RESULTS**

1. The auditor's report expresses unqualified opinions on the financial statements of Marion T. Academy Charter School.
2. No significant deficiencies relating to the audit of the financial statements are reported, which would be required to be reported in accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of Marion T. Academy Charter School are reported, which would be required to be reported in accordance with *Government Auditing Standards*.
4. No significant deficiencies relating to the audit of the major federal award program are reported in accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award program, (listed in item 7), expresses an unqualified opinion.
6. Any audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The program tested as a major program included:
  - 84.010- Title I Grants to Local Educational Agencies
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. Marion T. Academy Charter School did not qualify as a low-risk auditee.

**B. FINDINGS-FINANCIAL STATEMENT AUDIT**

None.

**C. FINDINGS & QUESTIONED COSTS-MAJOR FEDERAL AWARD PROGRAMS AUDIT**

None.

**MARION T. ACADEMY CHARTER SCHOOL**  
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2007

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**C. FINDINGS & QUESTIONED COSTS-MAJOR FEDERAL AWARD PROGRAMS AUDIT**

**DEPARTMENT OF EDUCATION**

06-01 **Title I School Improvement-CFDA No. 84.010**  
**Period:** July 1, 2005 to June 30, 2006

**Condition:** Payroll expenditures and related employment costs were charged to the federal grant award; however, no time and effort reports were available to support the expenditures.

**Criteria:** In accordance with OMB Circular A-87, Attachment B, paragraph C.8.h: "Support of salaries and wages. These standards regarding time distribution are in addition to the standards for payroll documentation. Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by responsible officials of the governmental unit".

**Effect:** \$12,862 of payroll expenditures and \$1,803 of related employment costs, which represents 100% of the expenditures tested, are considered questioned costs because documentation of grant charges were not based on the time and effort reports.

\$ 14,665

**Cause:** The work performed by an outside consulting group was not monitored by School officials.

**Recommendation:** The School has written policies and procedures to provide guidance to employees and/or outside consultants administering grant activity; therefore the employees are aware of the reporting requirements. We recommend management review its policies and procedures regarding monitoring to determine the cause of the breakdown and to take necessary steps to correct the condition.

**AUDITEE'S PLAN FOR CORRECTIVE ACTION**

*"The federal funds were properly used to pay stipends to teachers involved in curriculum mapping exercises related to school improvement. The teachers performed the services and were paid accordingly from the federal improvement grant award. Management has obtained the necessary documentation to support the questioned costs referred to above. Also, the School has revisited its policies and procedures, and has assigned the responsibility to the newly created Business Manager position of ensuring that all federal payroll expenditures are supported by time and effort reports where applicable."*

**STATUS OF FINDING**

The questioned costs have been resolved. Our current audit procedures revealed that the School has provided the necessary documentation to support the expenditures charged to this program.

**MARION T. ACADEMY CHARTER SCHOOL**  
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2007

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**C. FINDINGS & QUESTIONED COSTS-MAJOR FEDERAL AWARD PROGRAMS AUDIT**

**DEPARTMENT OF EDUCATION**

06-02 **Title III Improving Teacher Quality State Grants-CFDA No. 84.367**  
**Period:** July 1, 2005 to June 30, 2006

**Condition:** The School was unable to locate documentation supporting an expenditure charged to the grant award. Also, the School paid another expenditure twice.

**Criteria:** OMB Circular A-102, Section 20, paragraph 6: "Source Documentation" calls for the preparation of reports and the tracing of funds to a level of expenditures adequate to establish that the funds have not been used in violation of laws and regulations. In addition, Section 42, paragraph (b)(1): "Retention and Access Requirements for Records" requires that records be retained for a period of no less than three years.

**Effect:** We tested total expenditures of \$53,829 of which \$24,698 is considered questioned cost since no documentation was available for \$21,750 during our examination and \$2,948 was a duplicate payment.

\$ 24,698

**Cause:** School employees were not familiar with federal regulations requiring that records be retained for a period of no less than three years, nor were they able to detect the duplicate payment.

**Recommendation:** The School has written policies and procedures to provide guidance to employees and/or outside consultants administering grant activity. We recommend management review its policies and procedures regarding monitoring to determine the cause of the breakdown and to take the necessary steps to correct the condition.

**AUDITEE'S PLAN FOR CORRECTIVE ACTION**

*"The School will reimburse the federal grant award for the duplicate payment of \$2,948. Although duplicate payments are extremely rare due to the internal controls within the Delaware Financial Management System (DFMS), the School will create additional procedures to further ensure vendors are not paid twice."*

*Also, the School is in the process of developing a records management system in accordance with outlined State and Federal requirements. Hopefully with the creation of a records management system, the School can better manage its records, thereby avoiding misplacement of files, etc."*

**STATUS OF FINDING**

Questioned costs of \$21,750 have been resolved; however, the difference of \$2,948 should be refunded to the Federal program, since the expenditures were duplicate charges. Upon refunding of the \$2,948 to the Federal program the finding is considered resolved.

**MARION T. ACADEMY CHARTER SCHOOL**  
**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS**  
**Year Ended June 30, 2007**

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**B. FINDINGS-FINANCIAL STATEMENT AUDIT**

05-01 **MONITORING FUNCTION**

**Condition:** Our procedures revealed that the School's monitoring policies and procedures were not being adhered to or followed. This was evidenced by the fact that payroll expenditures were being charged to federal grants and were not reconciled to the supporting time and effort reports.

**Recommendation:** We recommended that management revisit its monitoring policies and procedures to determine the cause of the breakdown, and to take the necessary steps to correct the condition.

**AUDITEE'S PLAN FOR CORRECTIVE ACTION**

*"Marion T. Academy re-visited its monitoring policies and procedures to determine the cause of the breakdown, and took the necessary steps to correct the condition. The corrective steps include:*

- 1. Requirement that all time and effort reports be created for each staff member being paid by federal grants for each pay period.*
- 2. Requirement that all time and effort reports be signed by each employee on or before each pay period.*
- 3. Requirement that all time and effort reports be collected and placed in a binder in chronological order.*
- 4. Requirement that PHRST (payroll) personnel receive copy of time and effort report with each payroll approval."*

**STATUS OF FINDING**

The finding is resolved.